

ORIGINAL



0000091605

MEMORANDUM

TO: Docket Control

FROM: Ernest Johnson  
Director  
Utilities Division

DATE December 8, 2008

RE: STAFF REPORT FOR TONTO CREEK UTILITY COMPANY'S APPLICATION FOR  
A PERMANENT RATE INCREASE (DOCKET NO. W-02784A-08-0411)

Attached is the Staff Report for Tonto Creek Utility Company's application for a permanent rate increase. Staff recommends approval of its rates and charges.

Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before December 18, 2008.

EGJ:CSB:tdp

Originator: Crystal Brown

Arizona Corporation Commission

DOCKETED

DEC - 8 2008

DOCKETED BY	
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Service List for: Tonto Creek Utility Company  
Docket No. W-02784A-08-0411

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**STAFF REPORT  
UTILITIES DIVISION  
ARIZONA CORPORATION COMMISSION**

**TONTO CREEK UTILITY COMPANY  
DOCKET NO. W-02784A-08-0411**

**APPLICATION  
FOR A  
PERMANENT RATE INCREASE**

**DECEMBER 8, 2008**

## STAFF ACKNOWLEDGMENT

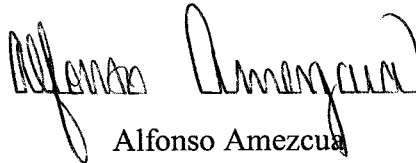
The Staff Report for Tonto Creek Utility Company (Docket No. W-02784A-08-0411) was the responsibility of the Staff members listed below. Crystal Brown was responsible for the review and analysis of the Company's application for a permanent rate increase, Staff's revenue requirement, rate base, and rate design. Katrin Stukov was responsible for the engineering and technical analysis. Alfonso Amezcua was responsible for reviewing the Arizona Corporation Commission's records on the Company and reviewing customer complaints filed with the Commission.



Crystal Brown  
Public Utilities Analyst V



Katrin Stukov  
Utilities Engineer



Alfonso Amezcua  
Public Utilities Consumer Analyst II

**EXECUTIVE SUMMARY OF  
TONTO CREEK UTILITY COMPANY  
DOCKET NO. W-02784A-08-0411**

Tonto Creek Utility Company ("Tonto Creek" or "Company") is a class E, for-profit Arizona public service corporation that provides potable water service to 72 metered residential customers. The Company is located about 14 miles east of Payson and two and one-half miles north of Kohl's Ranch in Gila County.

Tonto Creek proposes total operating revenue of \$30,540, an increase of \$8,639, or 39.45 percent above the Staff adjusted test year revenue of \$21,901. Staff recommends total operating revenue of \$28,521, an increase of \$6,620, or 30.23 percent above the Staff adjusted test year revenue of \$21,901 as shown on Schedule CSB-1.

The Company's proposed rates would increase the typical residential bill with an average usage of 2,737 gallons, from \$25.41 to \$33.21 for an increase of \$7.80 or 30.7 percent. Staff's recommended rates would increase the typical residential bill with an average usage of 2,737 gallons, from \$25.41 to \$28.65 for an increase of \$3.24 or 12.8 percent as shown on Schedule CSB-5.

**STAFF RECOMMENDATIONS**

1. Staff recommends approval of the Staff recommended rates and charges as shown in Schedule CSB-4.
2. Staff further recommends that the Company be ordered to file, with Docket Control, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.
3. Staff further recommends using the depreciation rates shown in the attached Engineering Report.
4. Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at [www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf](http://www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

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## **SCHEDULES**

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## **ATTACHMENT**

Engineering Report .....	Attachment A
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**Fact Sheet**

**Company:**

Type of Ownership: Arizona "C" Corporation

Location: The Company is located about 14 miles east of Payson and two and one-half miles north of Kohl's Ranch in Gila County. The Company is not located in an Active Management Area ("AMA").

**Rates:**

Current Rates: Decision No. 63372, dated February 16, 2001

Permanent rate increase application filed: August 4, 2008

Current test year ended: December 31, 2007

Prior test year ended: December 31, 1999

**Monthly Charges:**

	<u>Current Rates</u>	<u>Company Proposed Rates</u>	<u>Staff Recommended Rates</u>
<b>Monthly Minimum Charges:</b>			
5/8 x 3/4-inch meter	\$19.25	\$25.00	\$24.00
3/4-inch meter	\$22.44	\$28.19	\$36.00
1-inch meter	\$37.40	\$43.15	\$60.00
1 1/2 -inch meter	\$74.80	\$80.55	\$120.00
2-inch meter	\$110.68	\$116.43	\$192.00
3-inch meter	\$224.40	\$230.15	\$360.00
4-inch meter	\$374.00	\$379.75	\$600.00
6-inch meter	\$748.00	\$753.75	\$1,200.00
<b>Commodity Charges:</b>			
Per 1,000 for all usage	\$2.25	N/A	N/A
0 to 3,000 gallons	N/A	\$3.00	\$1.70
3,001 to 7,000 gallons	N/A	\$4.50	\$3.40
Over 7,000 gallons	N/A	\$6.00	\$6.00

N/A = Not Applicable

**Customers:**

Number of customers in prior test year (12/31/99) 56

Number of customers in the current test year (12/31/07): 72

Full time customers 16 of 72 (or 22.22 percent)

Seasonal customers: 56 of 72 (or 77.78 percent)

Customer notification for rate application filed: August 4, 2008

Number of customer complaints and/or opinions concerning rate applications filed:

No. of complaints: 0

No. of inquiries: 0

No. of opinions: 1 filed in 2008 opposing the rate increase.

Period: January 1, 2005 – November 1, 2008



### **Summary of Filing**

The test year results as adjusted by Utilities Division Staff ("Staff"), for Tonto Creek Utility Company ("Tonto Creek" or "Company") show total operating revenue of \$21,901, an operating loss of \$2,978, and no operating margin as shown on Schedule CSB-1. The Original Cost Rate Base ("OCRB") as adjusted by Staff is \$17,759.

Tonto Creek's proposed rates, as filed, would produce total operating revenue of \$30,540 and an operating income of \$11,697, or a 38.30 percent operating margin as shown on Schedule CSB-1. The Company proposed OCRB is \$11,984. The Company's proposed rates would increase the typical 5/8 x 3/4-inch meter bill with an average usage of 2,737 gallons from \$25.41 to \$33.21 for an increase of \$7.80, or 30.7 percent, as shown on Schedule CSB-5.

Staff recommends rates that would produce total operating revenue of \$28,521 and operating income of \$2,919, or a 10.24 percent operating margin as shown on Schedule CSB-1. The Staff recommended OCRB is \$17,759. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter bill with an average usage of 2,737 gallons from \$25.41 to \$28.65 for an increase of \$3.24, or 12.8 percent, as shown on Schedule CSB-5.

### **Background**

On August 4, 2008, Tonto Creek filed with the Commission an application for a permanent rate increase. On August 22, 2008, Staff deemed the application insufficient. On September 8, 2008, Tonto Creek submitted revisions to its application. On October 8, 2008, Staff filed the sufficiency letter.

Tonto Creek has only 5/8 x 3/4-inch meter customers.

### **Consumer Services**

Staff reviewed the Commission's records for the period January 1, 2005 to November 1, 2008, and found no complaints and one opinion. The opinion was opposed to the proposed rate increase.

### **Compliance**

Tonto Creek is current on its sales and property taxes.

### **Engineering Analysis and Recommendations**

Staff Engineer, Katrin Stukov, inspected the Company's plant facilities on October 21, 2008. A complete discussion of Staff's technical findings and recommendations and a complete description of the water system are provided in the attached Engineering Report.

### **Rate Base**

Staff's adjustments increased the Company's proposed rate base by \$5,775, from \$11,984 to \$17,759, as shown on Schedule CSB-2, page 1. Details of Staff's adjustments are discussed below.

### ***Plant in Service***

Adjustment A decreases plant in service by \$36, from \$77,145 to \$77,109 as shown on Schedule CSB-2, pages 1 and 2. Staff utilized the plant balances approved in Decision No. 63372 (the current permanent rate decision) and reflected all plant additions and retirements from the end of the test year in the last rate proceeding to the end of the test year in the instant rate proceeding.

Land and Land Rights - Adjustment "a" increases this account by \$275, from \$1,000 to \$1,275 as shown on Schedule CSB-2, pages 2 and 3. Staff began with the \$1,235 plant balance adopted in Decision No. 63372 and reflected no plant additions or retirements, as reported by the Company, from the end of the test year in the last rate proceeding to the end of the test year in the instant rate proceeding.

Structures and Improvements - Adjustment "b" increases this account by \$4,475, from \$4,000 to \$8,475, as shown on Schedule CSB-2 pages 2 and 3. The Company installed a fence around certain portions of its water plant based upon a recommendation from ADEQ personnel. The fence was not installed for growth. The invoice indicates that the fence was installed on January 3, 2008, at a cost of \$4,475.

Pumping Equipment - Adjustment "c" decreases this account by \$3,615, from \$6,859 to \$3,244, as shown on Schedule CSB-2 pages 2 and 3. The Engineering Report indicated that Company had two pumps: a well pump purchased in 2001 and a booster pump purchased in 2006. The Company provided invoices supported a total cost of \$3,244 for the two pumps.

Services - Adjustment "d" increases this account by \$11,200, from \$0 to \$11,200, as shown on Schedule CSB-2 pages 2 and 4. Staff began with the \$11,200 plant balance adopted in Decision No. 63372 and reflected no plant additions or retirements, as reported by the Company, from the end of the test year in the last rate proceeding to the end of the test year in the instant rate proceeding.

Meters - Adjustment "e" decreases this account by \$12,371, from \$15,627 to \$3,256, as shown on Schedule CSB-2 pages 2 and 4. Staff began with the \$2,596 plant balance adopted in Decision No. 63372 and reflected plant additions and retirements, as reported by the Company, from the end of the test year in the last rate proceeding to the end of the test year in the instant rate proceeding.

### ***Accumulated Depreciation***

Adjustment B decreases accumulated depreciation by \$3,281 from \$62,211 to \$58,930, as shown on Schedule CSB-2, pages 1, 12, and 13. The decrease was primarily based upon Staff's utilization of the accumulated depreciation balances by plant account adopted in Decision No. 63372 and the adjustments Staff made to plant in service.

### ***Working Capital***

Tonto Creek did not claim any working capital allowance. Staff's adjustments C and D resulted in a net increase of \$2,530 from \$0 to \$2,530 to working capital as shown on Schedule CSB-2, pages 1 and 14.

Cash working capital was calculated by using the formula method which equals one-eighth of the operating expenses less depreciation, taxes, purchased power and purchased water expenses plus one twenty-fourth of purchased power and purchased water expenses.

### **Operating Income Statement**

#### ***Operating Revenue***

Metered Water Revenue – Adjustment A increases metered water revenue by \$177 from \$21,724 to \$21,901 as shown on Schedule CSB-3 pages 1 and 2. Staff's adjustment reflects Staff's calculation of the metered revenue using the billing determinants provided by the Company.

#### ***Operating Expenses***

Staff's adjustments to operating expenses resulted in a net increase of \$6,036, from \$18,843 to \$24,879, as shown on Schedule CSB-3, page 1. Details of Staff's adjustments are presented below.

Salaries and Wages – Adjustment B increases this account by \$1,445 from \$9,355 to \$10,800, as shown on Schedule CSB-3 pages 1 and 2. Staff's adjustment annualizes the \$500 monthly salary for the certified operator and the \$400 monthly salary for the bookkeeper. Both employees are the sole owners and officers of the Company.

Office Supplies and Expense – Adjustment C decreases this account by \$746 from \$1,563, to \$817, as shown on Schedule 3 pages 1 and 2. Staff removed \$746 that was incurred for transportation expense and did not reclassify the amount as Staff's calculation for transportation expense is based upon a mileage calculation.

Water Testing – Adjustment D increases water testing expense by \$146 from \$649 to \$795, as shown on Schedule CSB-3 pages 1 and 2. This adjustment reflects the annual water testing costs reported in the attached Engineering Report.

Transportation Expense – Adjustment E increases transportation expense by \$1,641 from \$0 to \$1,641, as shown on Schedule CSB-3 pages 1 and 2. Mrs. Pam Fisher, the bookkeeper/owner, stated that the Company does not have a vehicle and that the owners use their personal vehicle to take and deliver water samples, make bank deposits, and do repair and maintenance work. Mrs. Fisher stated that she stopped charging mileage to the Company sometime in June as the Company could not afford it. Staff provided an annual allowance for transportation expense by multiplying the Company's estimated annual number of miles driven by the 2007 Internal Revenue Service ("IRS") mileage rate: 3,384 annual miles x \$0.485 = \$1,641.

Insurance, General Liability – Adjustment F increases general liability expense by \$3,885 from \$0 to \$3,885, as shown on Schedule CSB-3 pages 1 and 2. In 2008, the Company purchased commercial general liability insurance on the water plant in the amount of \$2,000 annually. The Company also purchased directors and officers insurance in the amount of \$1,885 annually.

Jerry and Pam Fisher are the sole shareholders of Tonto Creek. Mrs. Fisher, the Secretary and Treasurer, stated that the Company is located near national forest land and people sometimes go through the Company's property to get to the forest. Mr. and Mrs. Fisher are concerned about any damages that may occur to the water plant; the potential of having to pay for damages should anyone get injured while traversing their property; and for defending against a law suit in the event that they are sued for wrongful acts while owners of the Company. The insurance does not cover any personal property of the owners and does not cover intentional wrongful acts of the owners.

Regulatory Commission Expense – Adjustment G increases rate case expense by \$62, from \$45 to \$107, as shown on Schedule CSB-3 pages 1 and 3. This adjustment reflects the \$186 incurred for rate case expense for the instant case normalized over three years.

Depreciation Expense – Adjustment H increases depreciation expense by \$352 from \$1,498 to \$1,850, as shown on Schedule CSB-3 pages 1 and 3. Staff's depreciation expense reflects application of Staff's recommended depreciation rates to Staff's recommended plant balances.

Income Taxes – Adjustment I decreases income tax expense by \$749 from \$799 to \$50, as shown on Schedule CSB-3 pages 1 and 4. Staff's adjustment reflects Staff's calculation of income taxes based on Staff's adjustments to revenues and expenses.

### **Rate of Return**

There are several methods to determine a fair and reasonable rate of return. Cost of capital studies, operating margin, and cash requirements analysis are used most commonly. Tonto Creek's rate base is too small compared to other, more financially capable, companies to earn a meaningful rate of return using a cost of capital study. Cash requirement analyses are typically utilized for companies with small rate bases and significant debt service requirements. Tonto Creek has no debt service. Consequently, Staff's recommended rate of return was developed using the operating margin methodology. Staff's recommended operating margin is sufficient to allow the Company to make refund payments to customers for its service line and meter advances in aid of construction and to cover unexpected and sudden repair or replacement costs.

Staff recommends total operating revenue of \$28,521, an increase of \$6,620, or 30.23 percent above the Staff adjusted test year revenue of \$21,901. Staff's recommended revenue provides operating income of \$2,919 for an operating margin of 10.24 percent and a 16.44 percent rate of return on an OCRB of \$17,759 as shown on Schedule CSB-1.

### **Rate Design**

Schedule CSB-4 presents a complete list of the Company's present, proposed, and Staff's recommended rates and charges.

The Company has 72 customers: 16 are full time and the remaining 56 are seasonal. Most of the seasonal customers leave during the winter months causing water usage to be at an extremely low level. This situation heavily impacts rate design considerations because the monthly revenue generated must be stable enough to pay for the entire water plant as well as its management and operation all year long.

Under the Company's present rates, the monthly minimum charges vary by meter size and include no gallons. The commodity rate is \$2.25 per thousand gallons for all usage. The Company's proposed rates would increase the typical 5/8 x 3/4 - inch meter bill with an average usage of 2,737 gallons from \$25.41 to \$33.21 for an increase of \$7.80, or 30.7 percent, as shown on Schedule CSB-5.

Under Staff's recommended rates, the monthly minimum charges vary by meter size and include no gallons. The commodity rates are based on an inverted three-tier rate design for all meter sizes. Staff's recommended rates would increase the typical 5/8 x 3/4-inch meter bill with an average usage of 2,737 gallons from \$25.41 to \$28.65 for an increase of \$3.24, or 12.8 percent, as shown on Schedule CSB-5.

Staff recommended increases to certain miscellaneous service charges as shown on Schedule CSB-4. The Staff recommended amount falls within the middle of the range charged

for similarly sized companies that were used in a Staff prepared miscellaneous service charge study.

**Staff Recommendations**

Staff recommends approval of the Staff proposed rates and charges as shown in Schedule CSB-4.

Staff further recommends that the Company be ordered to file, with Docket Control, as a compliance item in this docket, a tariff schedule of its new rates and charges within 30 days after the effective date of the Decision in this proceeding.

Staff further recommends using the depreciation rates shown in the attached Engineering Report.

Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at [www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf](http://www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf). Staff recognizes that the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

## SUMMARY OF FILING

	-- Present Rates --		-- Proposed Rates --	
	Company as Filed	Staff as Adjusted	Company as Filed	Staff as Adjusted
Revenues:				
Metered Water Revenue	\$21,724	\$21,901	\$30,540	\$28,521
Unmetered Water Revenue	0	0	0	0
Other Water Revenues	0	0	0	0
<b>Total Operating Revenue</b>	<b>\$21,724</b>	<b>\$21,901</b>	<b>\$30,540</b>	<b>\$28,521</b>
Operating Expenses:				
Operation and Maintenance	\$14,530	\$ 20,963	\$14,530	\$20,963
Depreciation	1,498	1,850	1,498	1,850
Property & Other Taxes	2,016	2,016	2,016	2,016
Income Tax	799	50	799	772
<b>Total Operating Expense</b>	<b>\$18,843</b>	<b>\$24,879</b>	<b>\$18,843</b>	<b>\$25,602</b>
<b>Operating Income/(Loss)</b>	<b>\$2,881</b>	<b>(\$2,978)</b>	<b>\$11,697</b>	<b>\$2,919</b>
Rate Base O.C.L.D.	\$11,984	\$17,759	\$11,984	\$17,759
Rate of Return - O.C.L.D.	24.04%	N/M	97.61%	16.44%
Operating Margin <sup>1</sup>	13.26%	N/M	38.30%	10.24%
Increase in revenue over Staff adj TY			\$8,639	\$6,620
Increase in revenue over Staff adj TY (%)			39.45%	30.23%

NOTES:

<sup>1</sup> Operating Margin represents the proportion of funds available to pay interest and other below the line or non-ratemaking expenses.

N/M: Not meaningful

## RATE BASE

	----- Original Cost -----			
	Company	Adjustment	Ref	Staff
Plant in Service	\$ 77,145	\$ (36)	A	\$ 77,109
Less:				
Accum. Depreciation	62,211	(3,281)	B	58,930
<b>Net Plant</b>	<b>\$ 14,934</b>	<b>\$ 3,245</b>		<b>\$ 18,179</b>
Less:				
Line Extension Advances	\$ -	\$ -		\$ -
Service Line and Meter Advances	2,950	-		2,950
<b>Total Advances</b>	<b>\$ 2,950</b>	<b>\$ -</b>		<b>\$ 2,950</b>
Contributions Gross	\$ -	\$ -		\$ -
Less:				
Amortization of CIAC	-	-		-
<b>Net CIAC</b>	<b>\$ -</b>	<b>\$ -</b>		<b>\$ -</b>
<b>Total Deductions</b>	<b>\$ 2,950</b>	<b>\$ -</b>		<b>\$ 2,950</b>
Plus:				
1/24 Purchased Power & Water	\$ -	\$ 45	C	\$ 45
1/8 Operation & Maint.	-	2,484	D	2,484
Inventory	-	-		-
Prepayments	-	-		-
<b>Total Additions</b>	<b>\$ -</b>	<b>\$ 2,530</b>		<b>\$ 2,530</b>
<b>Rate Base</b>	<b>\$ 11,984</b>	<b>\$ 5,775</b>		<b>\$ 17,759</b>

### Explanation of Adjustments

- A - See Schedule CSB-2, Page 2
- B - See Schedule CSB-2, Pages 12 and 13
- C - See Schedule CSB-2, Page 14
- D - See Schedule CSB-2, Page 14



# PLANT ADJUSTMENT

	Company Exhibit	Adjustment		Staff Adjusted
301 Organization	\$ 281	\$ -		\$ 281
302 Franchises	\$ -	\$ -		\$ -
303 Land & Land Rights	\$ 1,000	\$ 275	a	\$ 1,275
304 Structures & Improvements	\$ 4,000	\$ 4,475	b	\$ 8,475
307 Wells & Springs	\$ 22,500	\$ -		\$ 22,500
311 Pumping Equipment	\$ 6,859	\$ (3,615)	c	\$ 3,244
320 Water Treatment Equipment	\$ -	\$ -		\$ -
330.1 Distribution Reservoirs - Storage	\$ 11,893	\$ -		\$ 11,893
330.1 Distribution Reservoirs - Pressure	\$ 11,468	\$ -		\$ 11,468
331 Transmission & Distribution Mains	\$ 2,402	\$ -		\$ 2,402
333 Services	\$ -	\$ 11,200	d	\$ 11,200
334 Meters & Meter Installations	\$ 15,627	\$ (12,371)	e	\$ 3,256
335 Hydrants	\$ -	\$ 0		\$ 0
336 Backflow Prevention Devices	\$ -	\$ 0		\$ 0
339 Other Plant and Misc. Equipment	\$ -	\$ 0		\$ 0
340 Office Furniture & Equipment	\$ 454	\$ 0		\$ 454
341 Transportation Equipment	\$ -	\$ -		\$ -
343 Tools Shop & Garage Equipment	\$ 661	\$ 0		\$ 661
344 Laboratory Equipment	\$ -	\$ -		\$ -
345 Power Operated Equipment	\$ -	\$ 0		\$ 0
346 Communication Equipment	\$ -	\$ -		\$ -
347 Miscellaneous Equipment	\$ -	\$ -		\$ -
348 Other Tangible Plant	\$ -	\$ -		\$ -
105 C.W.I.P.	\$ -	\$ -		\$ -
<b>TOTALS</b>	<b>\$ 77,145</b>	<b>\$ (36)</b>	<b>A</b>	<b>\$ 77,109</b>

For Explanations of Adjustments, see Schedule CSB-2, Page 3.

## STAFF PLANT ADJUSTMENTS

a - LAND AND LAND RIGHTS - Per Company	\$ 1,000	
Per Staff	1,275	<u>\$275</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$ 1,000	\$ 275	\$ 1,275	Plant balance of last Staff Report adopted in Dec. No. 63372
-	-	-	No plant additions or retirements reported by Company
<u>\$ 1,000</u>	<u>\$ 275</u>	<u>\$ 1,275</u>	

b - STRUCTURES AND IMPROVEMENTS - Per Company	\$ 4,000	
Per Staff	8,475	<u>\$4,475</u>

To reflect a fence installed around water plant on 1-3-08.

Per Company	Difference	Per Staff	
\$ 4,000	\$ -	\$ 4,000	Plant balance of last Staff Report adopted in Dec. No. 63372
-	4,475	4,475	To reflect post-test year plant in service as of 1-3-08
<u>\$4,000</u>	<u>\$4,475</u>	<u>\$8,475</u>	Total

c - PUMPING EQUIPMENT - Per Company	\$ 6,859	
Per Staff	3,244	<u>(\$3,615)</u>

The attached Staff Engineering report indicates that the Company had only two pumps in service: a 2-horsepower and a 5-horsepower pump. Staff adjusted the account to reflect only the cost of the two pumps.

Per Staff	
<u>\$6,519</u>	Plant balance of last Staff Report adopted in Dec. No. 63372
\$1,463	2001 pump addition (2 horsepower)
<u>\$1,781</u>	2006 pump addition (5 horsepower)
<u>\$3,244</u>	
\$9,763	Subtotal (\$6,519 + \$3,244)
<u>(\$2,904)</u>	Amount needed to reconcile to Company's ending balance
\$6,859	
<u>(\$3,615)</u>	To reflect plant that was not in service
<u>\$3,244</u>	Subtotal

## STAFF PLANT ADJUSTMENTS

d - SERVICES - Per Company	\$ -	
Per Staff	11,200	<u>\$11,200</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$ -	\$ 11,200	\$ 11,200	Plant balance of last Staff Report adopted in Dec. No. 63372
-	-	-	No plant additions or retirements reported by Company
<u>\$0</u>	<u>\$11,200</u>	<u>\$11,200</u>	

e - METERS - Per Company	\$ 15,627	
Per Staff	3,256	<u>(\$12,371)</u>

To reflect the correct calculation of the ending balance as follows:

Per Company	Difference	Per Staff	
\$14,577	(\$11,981)	\$2,596	Plant balance of last Staff Report adopted in Dec. No. 63372
\$34	\$0	\$34	2000 Addition per Company
\$69	\$0	\$69	2002 Addition per Company
\$103	\$0	\$103	2003 Addition per Company
\$172	\$0	\$172	2004 Addition per Company
\$34	\$0	\$34	2005 Addition per Company
\$103	\$0	\$103	2006 Addition per Company
\$143	\$0	\$143	2007 Addition per Company
\$392	(\$392)	\$0	Amount needed to reconcile to Company's balance
\$0	\$2	\$2	Rounding
<u>\$15,627</u>	<u>(\$12,371)</u>	<u>\$3,256</u>	

## PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	Staff		Staff					2000		2000	
	31-Dec-99 Original Cost	31-Dec-99 Accumulated Depreciation	Depreciation Rates	2000 Additions	2000 Retirements	Depreciation	Total Cost	Accumulated Depreciation	2000		
301 Organization Cost	\$281	\$0	0.00%	\$0	\$0	\$0	\$281	\$0			
302 Franchise Cost	0	0	0.00%	0	0	0	0	0			
303 Land & Land Rights	1,275	0	0.00%	0	0	0	1,275	0			
304 Structures & Improv	4,000	4,000	5.00%	0	0	0	4,000	4,000			
307 Wells & Springs	22,500	22,500	5.00%	0	0	0	22,500	22,500			
311 Electric Pumping Equip	6,519	4,013	5.00%	1,463	0	363	7,982	4,376			
320 Water Treatment Equip	500	500	5.00%	0	500	0	0	0			
30.1 Dist. Resrvr - Storage	11,893	6,293	5.00%	0	0	595	11,893	6,888			
30.2 Dist. Resrvr - Pressure	11,468	6,068	5.00%	0	0	573	11,468	6,641			
331 Trans. & Distr. Mains	2,402	2,238	5.00%	0	0	120	2,402	2,358			
333 Services	11,200	560	5.00%	0	0	560	11,200	1,120			
334 Meters	2,596	2,535	5.00%	34	0	62	2,630	2,597			
335 Hydrants	0	0	5.00%	0	0	0	0	0			
339 Other Plant & Misc. Equip	0	0	5.00%	0	0	0	0	0			
340 Office Furniture & Fixt	0	0	5.00%	0	0	0	0	0			
341 Transportation Equip	0	0	5.00%	0	0	0	0	0			
343 Tools & Work Equip	625	625	5.00%	0	0	0	625	625			
345 Power Operated Equip	0	0	5.00%	0	0	0	0	0			
347 Miscellaneous Equip	0	0	5.00%	0	0	0	0	0			
1999/2000 Totals	\$75,259	\$49,332		\$1,497	\$500	\$2,273	\$76,256	\$51,105			

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2001 Additions Cost	2001 Retirements		Fully Depreciated	2001 Depr. Expense	2001 Total Cost	2001 Accumulated Depreciation	2001 Net Book Value
		Cost	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$281	\$0	\$281
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	1,275	0	1,275
304 Structures & Improv	0	0	0	4,000	0	4,000	4,000	0
307 Wells & Springs	0	0	0	22,500	0	22,500	22,500	0
311 Electric Pumping Equip	0	0	0	0	399	7,982	4,775	3,207
320 Water Treatment Equip	0	0	0	0	0	0	0	0
330.1 Dist. Resrvr - Storage	0	0	0	0	595	11,893	7,482	4,411
330.2 Dist. Resrvr - Pressure	0	0	0	0	573	11,468	7,215	4,253
331 Trans. & Distr. Mains	0	0	0	2,402	44	2,402	2,402	(0)
333 Services	0	0	0	0	560	11,200	1,680	9,520
334 Meters	0	0	0	2,596	2	2,630	2,599	32
335 Hydrants	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	625	625	0
345 Power Operated Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0
2001 Totals	\$0	\$0	\$0	\$31,498	\$2,173	\$76,256	\$53,278	\$22,979

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2002 Additions Cost	2002 Retirements		Fully Depreciated	2002 Depr. Expense	2002 Total Cost	2002 Accumulated Depreciation	2002 Net Book Value
		Cost	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$281	\$0	\$281
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	1,275	0	1,275
304 Structures & Improv	0	0	0	0	0	4,000	4,000	0
307 Wells & Springs	0	0	0	0	0	22,500	22,500	0
311 Electric Pumping Equip	0	0	0	0	399	7,982	5,174	2,808
320 Water Treatment Equip	0	0	0	0	0	0	0	0
330.1 Dist. Resrvr - Storage	0	0	0	0	595	11,893	8,077	3,816
330.2 Dist. Resrvr - Pressure	0	0	0	0	573	11,468	7,788	3,680
331 Trans. & Distr. Mains	0	0	0	0	0	2,402	2,402	(0)
333 Services	0	0	0	0	560	11,200	2,240	8,960
334 Meters	69	0	0	2,596	3	2,699	2,602	97
335 Hydrants	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	0	625	625	0
345 Power Operated Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0
2002 Totals	\$69	\$0	\$0	\$31,498	\$2,131	\$76,325	\$55,408	\$20,917

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

2003 Additions Cost	2003 Retirements		Fully Depreciated	2003 Depr. Expense	2003 Total Cost	2003 Accumulated Depreciation	2003 Net Book Value
	Cost	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$281	\$0	\$281
302 Franchise Cost	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	1,275	0	1,275
304 Structures & Improv	0	0	4,000	0	4,000	4,000	0
307 Wells & Springs	0	0	22,500	0	22,500	22,500	0
311 Electric Pumping Equip	0	0	0	399	7,982	5,573	2,409
320 Water Treatment Equip	0	0	0	0	0	0	0
330.1 Dist. Resvrv - Storage	0	0	0	595	11,893	8,672	3,221
330.2 Dist. Resvrv - Pressure	0	0	0	573	11,468	8,362	3,106
331 Trans. & Distr. Mains	0	0	2,402	0	2,402	2,402	(0)
333 Services	0	0	0	560	11,200	2,800	8,400
334 Meters	103	0	2,596	8	2,803	2,610	193
335 Hydrants	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	0	0	0	0
341 Transportation Equip	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	625	625	0
345 Power Operated Equip	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0
2003 Totals	\$103	\$0	\$31,498	\$2,135	\$76,429	\$57,543	\$18,886

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Test Year Ended 12/31/07

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

2004 Additions	2004 Retirements		Fully Depreciated	2004		2004 Total Cost	2004 Accumulated Depreciation	2004 Net Book Value
	Cost	Depreciation		Depr. Expense	Total Cost			
301 Organization Cost	\$0	\$0	\$0	\$0	\$281	\$0	\$281	
302 Franchise Cost	0	0	0	0	0	0	0	
303 Land & Land Rights	0	0	0	0	1,275	0	1,275	
304 Structures & Improv	0	0	4,000	0	4,000	4,000	0	
307 Wells & Springs	0	0	22,500	0	22,500	22,500	0	
311 Electric Pumping Equip	0	0	0	399	7,982	5,972	2,010	
320 Water Treatment Equip	0	0	0	0	0	0	0	
330.1 Dist. Resvrr - Storage	0	0	0	595	11,893	9,266	2,627	
330.2 Dist. Resvrr - Pressure	0	0	0	573	11,468	8,935	2,533	
331 Trans. & Distr. Mains	0	0	2,402	0	2,402	2,402	(0)	
333 Services	0	0	0	560	11,200	3,360	7,840	
334 Meters	172	0	2,596	15	2,975	2,625	351	
335 Hydrants	0	0	0	0	0	0	0	
339 Plant Structures & Imprvr	0	0	0	0	0	0	0	
340 Office Furniture & Fixt	517	280	0	6	237	6	231	
341 Transportation Equip	0	0	0	0	0	0	0	
343 Tools & Work Equip	661	625	625	32	661	32	629	
345 Power Operated Equip	0	0	0	0	0	0	0	
347 Miscellaneous Equip	0	0	0	0	0	0	0	
2004 Totals	\$1,351	\$905	\$31,498	\$2,180	\$76,874	\$59,098	\$17,776	



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Test Year Ended 12/31/07

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

2005 Additions	2005 Retirements		Fully		2005		2005 Accumulated		2005 Net	
Cost	Cost	Depreciation	Depreciated	Depreciated	Depr. Expense	Total Cost	Depreciation	Depreciation	Book Value	Book Value
\$0	\$0	\$0	\$0	\$0	\$0	\$281	\$0	\$0	\$281	\$281
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	1,275	0	0	1,275	1,275
0	0	0	4,000	0	0	4,000	4,000	4,000	0	0
0	0	0	22,500	0	0	22,500	22,500	22,500	0	0
0	0	0	0	0	399	7,982	6,371	6,371	1,611	1,611
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	595	11,893	9,861	9,861	2,032	2,032
0	0	0	0	0	573	11,468	9,508	9,508	1,960	1,960
0	0	0	2,402	0	0	2,402	2,402	2,402	(0)	(0)
0	0	0	0	0	560	11,200	3,920	3,920	7,280	7,280
34	0	0	2,596	0	20	3,010	2,644	2,644	365	365
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	12	237	18	18	219	219
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	33	661	65	65	596	596
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0
2005 Totals	\$34	\$0	\$0	\$31,498	\$2,192	\$76,909	\$61,290	\$61,290	\$15,619	\$15,619

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

2006 Additions	2006 Retirements		Fully Depreciated	2006		2006 Total Cost	2006 Accumulated Depreciation	2006 Net Book Value
	Cost	Depreciation		Depr. Expense	Total Cost			
301 Organization Cost	\$0	\$0	\$0	\$0	\$281	\$0	\$281	\$0
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	1,275	0	1,275	0
304 Structures & Improv	0	0	4,000	0	4,000	4,000	0	0
307 Wells & Springs	0	0	22,500	0	22,500	22,500	0	0
311 Electric Pumping Equip	1,781	6,519	6,519	281	3,244	133	3,111	0
320 Water Treatment Equip	0	0	0	0	0	0	0	0
330.1 Dist. Resrv - Storage	0	0	0	595	11,893	10,455	1,438	0
330.2 Dist. Resrvr - Pressure	0	0	0	573	11,468	10,082	1,386	0
331 Trans. & Distr. Mains	0	0	2,402	0	2,402	2,402	(0)	0
333 Services	0	0	0	560	11,200	4,480	6,720	0
334 Meters	103	0	2,596	23	3,113	2,668	445	0
335 Hydrants	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	0	0	0	12	237	30	207	0
341 Transportation Equip	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	33	661	98	563	0
345 Power Operated Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0
2006 Totals	\$1,884	\$6,519	\$31,498	\$2,077	\$72,274	\$56,848	\$15,426	

PLANT & ACCUMULATED DEPRECIATION SCHEDULE

	2007 Additions Cost	2007 Retirements		Fully Depreciated	2007 Depr. Expense	2007 Total Cost	2007 Accumulated Depreciation	2007 Net Book Value
		Cost	Depreciation					
301 Organization Cost	\$0	\$0	\$0	\$0	\$0	\$281	\$0	\$281
302 Franchise Cost	0	0	0	0	0	0	0	0
303 Land & Land Rights	0	0	0	0	0	1,275	0	1,275
304 Structures & Improv	4,475	0	0	4,000	112	8,475	4,112	4,363
307 Wells & Springs	0	0	0	22,500	0	22,500	22,500	0
311 Electric Pumping Equip	0	0	0	0	162	3,244	295	2,949
320 Water Treatment Equip	0	0	0	0	0	0	0	0
330.1 Dist. Resrvr - Storage	0	0	0	0	595	11,893	11,050	843
330.2 Dist. Resrvr - Pressure	0	0	0	0	573	11,468	10,655	813
331 Trans. & Distr. Mains	0	0	0	2,402	0	2,402	2,402	(0)
333 Services	0	0	0	0	560	11,200	5,040	6,160
334 Meters	143	0	0	2,596	29	3,256	2,697	559
335 Hydrants	0	0	0	0	0	0	0	0
339 Plant Structures & Imprv	0	0	0	0	0	0	0	0
340 Office Furniture & Fixt	217	0	0	0	17	454	47	407
341 Transportation Equip	0	0	0	0	0	0	0	0
343 Tools & Work Equip	0	0	0	0	33	661	131	530
345 Power Operated Equip	0	0	0	0	0	0	0	0
347 Miscellaneous Equip	0	0	0	0	0	0	0	0
2007 Totals	\$4,835	\$0	\$0	\$31,498	\$2,082	\$77,109	\$58,930	\$18,179

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## ACCUMULATED DEPRECIATION ADJUSTMENT

	<u>Amount</u>
Accumulated Depreciation - Per Company	\$ 62,211
Accumulated Depreciation - Per Staff	58,930
<b>Total Adjustment</b>	<b>\$ (3,281) B</b>

To reflect Staff's calculation of accumulated depreciation expense based upon Staff's adjustments to plant.

**STAFF RATE BASE ADJUSTMENTS**

C	-	WORKING CAPITAL (1/24 PURCHASED PWR & WTR) - Per Company Per Staff	\$	-	45	\$45
		To reflect Staff's calculation of working capital based upon Staff's recommendations for purchased power and purchased water.				
D	-	WORKING CAPITAL (1/8 OPERATION & MAINT EXP) - Per Company Per Staff	\$	-	2,484	\$2,484
		To reflect Staff's calculation of working capital based upon Staff's recommendations for operation and maintenance expense (excluding purchased power and purchased water expenses).				

## STATEMENT OF OPERATING INCOME

	Company Exhibit	Staff Adjustments	Staff Adjusted
Revenues:			
461 Metered Water Revenue	\$ 21,724	\$ 177 A	\$ 21,901
460 Unmetered Water Revenue	\$ -	\$ -	\$ -
474 Other Water Revenues	\$ -	\$ -	\$ -
Total Operating Revenue	\$ 21,724	\$ 177	\$ 21,901
Operating Expenses:			
601 Salaries and Wages	\$ 9,355	\$ 1,445 B	\$ 10,800
610 Purchased Water	\$ -	\$ -	\$ -
615 Purchased Power	\$ 1,090	\$ -	\$ 1,090
618 Chemicals	\$ -	\$ -	\$ -
620 Materials and Supplies	\$ 293	\$ -	\$ 293
621 Office Supplies & Expense	\$ 1,563	\$ (746) C	\$ 817
630 Outside Services	\$ 1,285	\$ -	\$ 1,285
635 Water Testing	\$ 649	\$ 146 D	\$ 795
641 Rents	\$ -	\$ -	\$ -
650 Transportation Expenses	\$ -	\$ 1,641 E	\$ 1,641
657 Insurance - General Liability	\$ -	\$ 3,885 F	\$ 3,885
659 Insurance - Health and Life	\$ -	\$ -	\$ -
666 Regulatory Commission Expense	\$ 45	\$ 62 G	\$ 107
675 Miscellaneous Expense	\$ 250	\$ -	\$ 250
403 Depreciation Expense	\$ 1,498	\$ 352 H	\$ 1,850
408 Taxes Other Than Income	\$ 972	\$ -	\$ 972
408.11 Property Taxes	\$ 1,044	\$ -	\$ 1,044
409 Income Tax	\$ 799	\$ (749) I	\$ 50
Total Operating Expenses	\$ 18,843	\$ 6,036	\$ 24,879
<b>OPERATING INCOME/(LOSS)</b>	<b>\$ 2,881</b>	<b>\$ (5,859)</b>	<b>\$ (2,978)</b>

## STAFF ADJUSTMENTS

A - METERED WATER REVENUE - Per Company	\$ 21,724	
Per Staff	21,901	\$177

Staff added \$177 to reconcile the metered revenue per the Company's income statement to the revenue Staff calculated using the billing determinants provided by the Company.

B - SALARIES AND WAGES - Per Company	\$ 9,355	
Per Staff	10,800	\$1,445

Staff added \$1,445 to reflect the annual salaries of the certified operator/employee and the billing and accounting employee as follows:

\$500	Monthly salary for certified operator
\$400	Monthly salary for billing and accounting employee
\$900	
x 12	
\$10,800	

C - OFFICE SUPPLIES AND EXPENSE - Per Company	\$ 1,563	
Per Staff	817	(\$746)

Staff removed and did not reclassify \$746 in transportation costs that were included in the office supplies and expense account.

D - WATER TESTING - Per Company	\$ 649	
Per Staff	795	\$146

To reflect Staff's normalized annual water testing expense

E - TRANSPORTATION EXPENSE - Per Company	\$ -	
Per Staff	1,641	\$1,641

To reflect Staff's calculation of 12 months of transportation expense as follows:

Transportation Expense	
200	To take and deliver water samples
2	Meter reading
80	Bank deposits (40 miles roundtrip twice per month)
282	Total monthly miles
x 12	Months
3,384	Total annual miles
\$ 0.485	2007 IRS mileage rate
\$ 1,641	2007 total transportation expense

F - INSURANCE, GENERAL LIABILITY - Per Company	\$ -	
Per Staff	3,885	\$3,885

To reflect liability insurance on the plant and Company officers purchased in 2008

\$1,885	General liability insurance for plant
2,000	General liability insurance for Company officers
\$3,885	

### STAFF ADJUSTMENTS (Cont.)

G - REGULATORY COMMISSION EXPENSE - Per Company \$ 45  
Per Staff 107 \$62

To reflect normalized rate case expense as follows:

\$45 Arizona Corporation Commission annual report fee  
62 Normalized rate case expense (\$186 normalized over 3 years)  
\$107

H - DEPRECIATION - Per Company \$1,498  
Per Staff 1,850 \$352

To reflect Staff's calculation of depreciation expense base on Staff's adjustments to plant as follows:

Acct No.	DESCRIPTION	[A] PLANT In SERVICE Per Staff	[B] NonDepreciable or Fully Depreciated PLANT	[C] DEPRECIABLE PLANT (Col A - Col B)	[D] DEPRECIATION RATE	[E] DEPRECIATION EXPENSE (Col C x Col D)
301	Organization	\$ 281	\$ 281	\$ -	0.00%	\$ -
302	Franchises	\$ -	\$ -	\$ -	0.00%	\$ -
303	Land & Land Rights	\$ 1,275	\$ 1,275	\$ -	0.00%	\$ -
304	Structures & Improvements	\$ 8,475	\$ 4,000	\$ 4,475	3.33%	\$ 149
307	Wells & Springs	\$ 22,500	\$ 22,500	\$ -	3.33%	\$ -
311	Pumping Equipment	\$ 3,244	\$ -	\$ 3,244	12.50%	\$ 405
320	Water Treatment Equipment	\$ -	\$ -	\$ -	20.00%	\$ -
330.1	Distribution Reservoirs - Storage	\$ 11,893	\$ -	\$ 11,893	2.22%	\$ 264
330.2	Distribution Reservoirs - Pressure	\$ 11,468	\$ -	\$ 11,468	5.00%	\$ 573
331	Transmission & Distribution Mains	\$ 2,402	\$ 2,402	\$ -	2.00%	\$ -
333	Services	\$ 11,200	\$ -	\$ 11,200	3.33%	\$ 373
334	Meters & Meter Installations	\$ 3,256	\$ 2,596	\$ 660	8.33%	\$ 55
335	Hydrants	\$ 0	\$ -	\$ 0	0.00%	\$ -
336	Backflow Prevention Devices	\$ 0	\$ -	\$ 0	0.00%	\$ -
339	Other Plant and Misc. Equipment	\$ 454	\$ -	\$ 454	6.67%	\$ 30
340	Office Furniture & Equipment	\$ -	\$ -	\$ -	6.67%	\$ -
341	Transportation Equipment	\$ 661	\$ -	\$ 661	0.00%	\$ -
343	Tools Shop & Garage Equipment	\$ -	\$ -	\$ -	5.00%	\$ -
	Total Plant	\$ 77,109	\$ 33,054	\$ 44,055		\$ 1,850

Depreciation Expense Before Amortization of CIAC: \$ 1,850

Less Amortization of CIAC\*: \$ -

**Test Year Depreciation Expense - Staff: \$ 1,850**

Depreciation Expense - Company: \$ 1,498

**Staff's Total Adjustment: \$ 352**

**\* Amortization of CIAC Calculation:**

Contribution(s) in Aid of Construction (Gross) \$ -

Less: Non Amortizable Contribution(s) 0

Less: Fully Amortized Contribution(s) 0

Amortizable Contribution(s) \$ -

Times: Staff Proposed Amortization Rate 0.00%

**Amortization of CIAC \$ -**



**STAFF ADJUSTMENTS (Cont.)**

I - INCOME TAXES - Per Company  
Per Staff

\$	799	
	<u>50</u>	<u>(\$749)</u>

To reflect Staff's calculation of income taxes based on Staff's changes to revenues and expenses.

## RATE DESIGN

Present Rates	-Proposed Rates-	
	Company	Staff

### Monthly Customer Charge

5/8" x 3/4" Meter	\$ 19.25	\$ 25.00	24.00
3/4" Meter	22.44	28.19	36.00
1" Meter	37.40	43.15	60.00
1½" Meter	74.80	80.55	120.00
2" Meter	110.68	116.43	192.00
3" Meter	224.40	230.15	360.00
4" Meter	374.00	379.75	600.00
6" Meter	748.00	753.75	1,200.00

### Gallons Included in Monthly Customer Charge:

For all meter sizes	0	0	0
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### Commodity Rates

Per 1,000 gallons for all usage	\$ 2.25	N/A	N/A
0 to 3,000 gallons	N/A	\$ 3.00	\$ 1.70
3,001 to 7,000 gallons	N/A	\$ 4.50	\$ 3.40
7,001 and above gallons	N/A	\$ 6.00	\$ 6.00

### Service Line and Meter Installation Charges

	Present Rates	Company Proposed	Staff Proposed		
			Services	Meters	Total
5/8" x 3/4" Meter	\$ 250	\$ 400	\$ 415	\$ 105	\$ 520
3/4" Meter	\$ 275	\$ 425	\$ 415	\$ 205	\$ 620
1" Meter	\$ 420	\$ 570	\$ 465	\$ 265	\$ 730
1 1/2" Meter	\$ 635	\$ 785	\$ 520	\$ 475	\$ 995
2" Meter	\$ 1,090	\$ 1,240	\$ 800	\$ 995	\$ 1,795
3" Meter	\$ 1,505	\$ 3,000	\$ 1,015	\$ 1,620	\$ 2,635
4" Meter	\$ 2,380	\$ 5,000	\$ 1,430	\$ 2,570	\$ 4,000
6" Meter	\$ 4,655	\$ 10,000	\$ 2,150	\$ 4,925	\$ 7,075

### Service Charges

	Present Rates	-Proposed Rates-	
		Company	Staff
Establishment	\$ 10.00	\$ 25.00	\$ 25.00
Establishment (After Hours)	\$ 15.00	\$ 50.00	\$ 37.50
Reconnection (Delinquent)	\$ 20.00	\$ 30.00	\$ 30.00
Reconnection (Delinquent - After Hours)	N/A	\$ 50.00	\$ 45.00
Meter Test (If Correct)	\$ 30.00	\$ 50.00	\$ 40.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$ 20.00	\$ 25.00	\$ 25.00
Deferred Payment	1.50%	1.50%	1.50%
Meter Re-Read (If Correct)	\$ 10.00	\$ 25.00	\$ 25.00
Late Fee	N/A	1.50%	1.50%

\* Per Commission Rules (R14-2-403.B)

\*\* Months off system times the monthly minimum (R14-2-403.D)

N/A: Not applicable

Tonto Creek Utility Company  
Docket No. W-02784A-08-0411  
Test Year Ended December 31, 2007

Schedule CSB-5

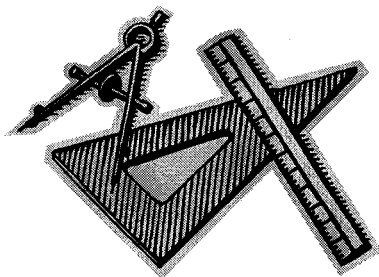
**TYPICAL BILL ANALYSIS**  
General Service 5/8 X 3/4 - Inch Meter

Average Number of Customers: 72

<u>Company Proposed</u>	<u>Gallons</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Dollar Increase</u>	<u>Percent Increase</u>
Average Usage	2,737	\$25.41	\$33.21	\$7.80	30.7%
Median Usage	1,014	\$21.53	\$28.04	\$6.51	30.2%
<u>Staff Recommended</u>					
Average Usage	2,737	\$25.41	\$28.65	\$3.24	12.8%
Median Usage	1,014	\$21.53	\$25.72	\$4.19	19.5%

Present & Proposed Rates (Without Taxes)  
General Service 5/8 X 3/4 - Inch Meter

<u>Gallons Consumption</u>	<u>Present Rates</u>	<u>Company Proposed Rates</u>	<u>% Increase</u>	<u>Staff Recommended Rates</u>	<u>% Increase</u>
0	\$19.25	\$25.00	29.9%	\$24.00	24.7%
1,000	21.50	28.00	30.2%	25.70	19.5%
2,000	23.75	31.00	30.5%	27.40	15.4%
3,000	26.00	34.00	30.8%	29.10	11.9%
4,000	28.25	38.50	36.3%	32.50	15.0%
5,000	30.50	43.00	41.0%	35.90	17.7%
6,000	32.75	47.50	45.0%	39.30	20.0%
7,000	35.00	52.00	48.6%	42.70	22.0%
8,000	37.25	58.00	55.7%	48.70	30.7%
9,000	39.50	64.00	62.0%	54.70	38.5%
10,000	41.75	70.00	67.7%	60.70	45.4%
15,000	53.00	100.00	88.7%	90.70	71.1%
20,000	64.25	130.00	102.3%	120.70	87.9%
25,000	75.50	160.00	111.9%	150.70	99.6%
50,000	131.75	310.00	135.3%	300.70	128.2%
75,000	188.00	460.00	144.7%	450.70	139.7%
100,000	244.25	610.00	149.7%	600.70	145.9%
125,000	300.50	760.00	152.9%	750.70	149.8%
150,000	356.75	910.00	155.1%	900.70	152.5%
175,000	413.00	1,060.00	156.7%	1,050.70	154.4%
200,000	469.25	1,210.00	157.9%	1,200.70	155.9%



**ENGINEERING REPORT FOR TONTO CREEK UTILITY  
WATER COMPANY**

**DOCKET NO. W-02784A-08-0411 (Rates)**

**BY: Katrin Stukov** /CS  
**Utilities Engineer**

**October 27, 2008**

**CONCLUSIONS**

1. The Arizona Department of Environmental Quality ("ADEQ") has determined that the Tonto Creek system is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.
2. The Company's water system has a water loss of 3.5 percent. This percentage is within acceptable limit of 10 percent.
3. The Company water system's well production and storage capacities are adequate to serve the present customer base and a reasonable level of growth.
4. The Company is not located in an Active Management Area ("AMA"). The Arizona Department of Water Resources ("ADWR") has determined that the Company is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343 and Company's filed System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan met ADWR requirements.
5. A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Tonto Creek.
6. The Company does not have a curtailment plan tariff.
7. The Company has an approved backflow prevention tariff.

**RECOMMENDATIONS**

1. Staff recommends that the Company file a curtailment tariff with Docket Control, as a compliance item in this same docket, within 45 days after the effective date of the decision in this case for the review and certification of Staff. Staff further recommends that this tariff shall generally conform to the sample tariff found on the Commission's web site at [www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf](http://www.azcc.gov/divisions/utilities/forms/CurtailmentTariffStandard.pdf). Staff recognizes that

the Company may need to make minor modifications to the sample tariff according to its specific management, operational, and design requirements as necessary and appropriate.

2. Staff recommends its annual water testing expense of \$795 be used for purposes of this application.
3. Staff recommends that the Company adopt the depreciation rates delineated in Table C.
4. Staff recommends approval of its service line and meter installation charges labeled "Staff's Recommendation" in Table D.

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**A. INTRODUCTION AND LOCATION OF COMPANY**

On August 4, 2008 Tonto Creek Utility ("Tonto Creek" or "Company") filed a rate application with the Arizona Corporation Commission ("ACC" or "Commission"). Tonto Creek's service area is located approximately 14 miles east of Payson and 2-1/2 miles north of Kohl's Ranch in Gila County. Figure 1 delineates the Company's certificated area and Figure 2 shows its location within Gila County.

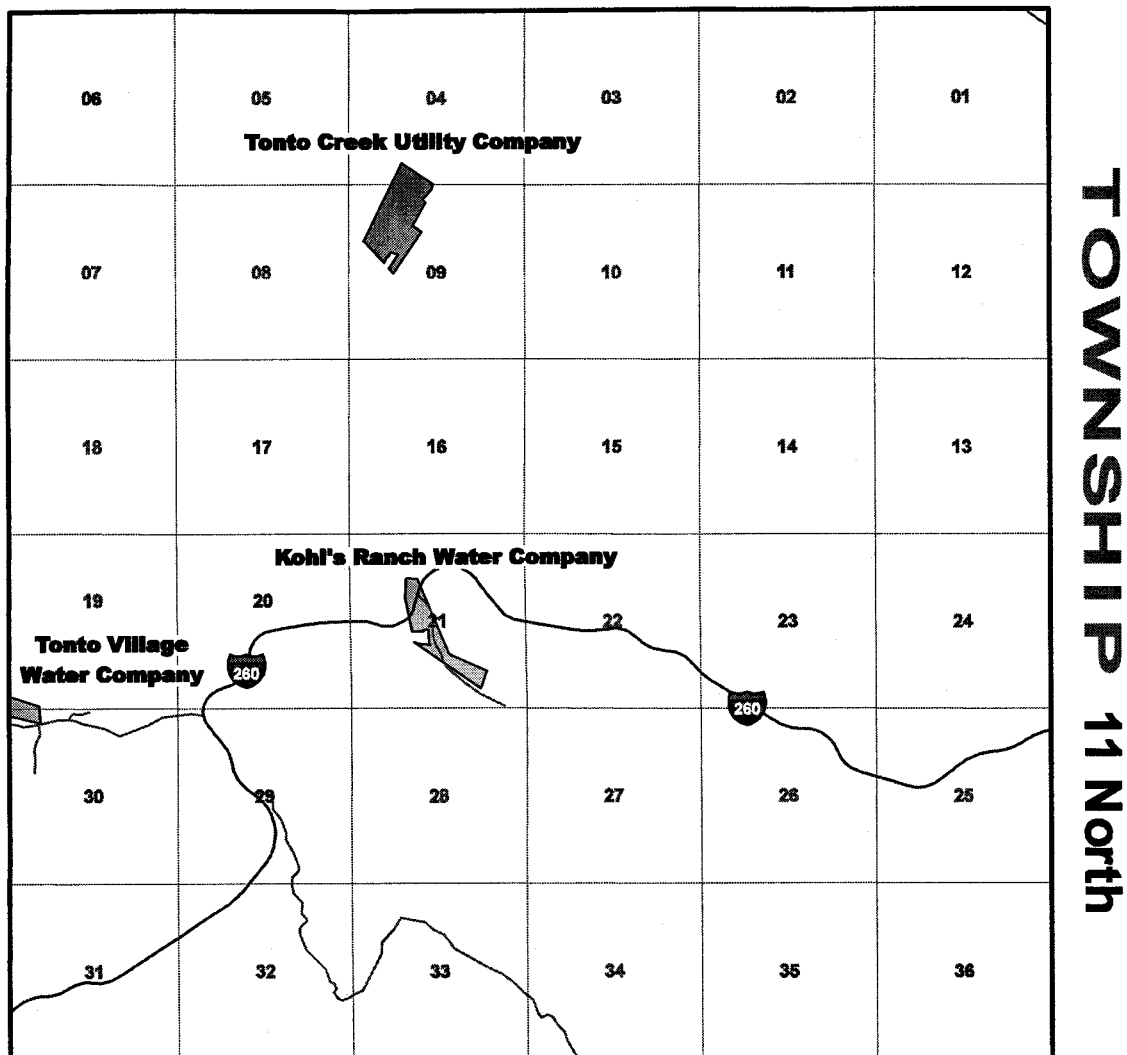
**GILA COUNTY****RANGE 12 East**

Figure 1

# GILA COUNTY

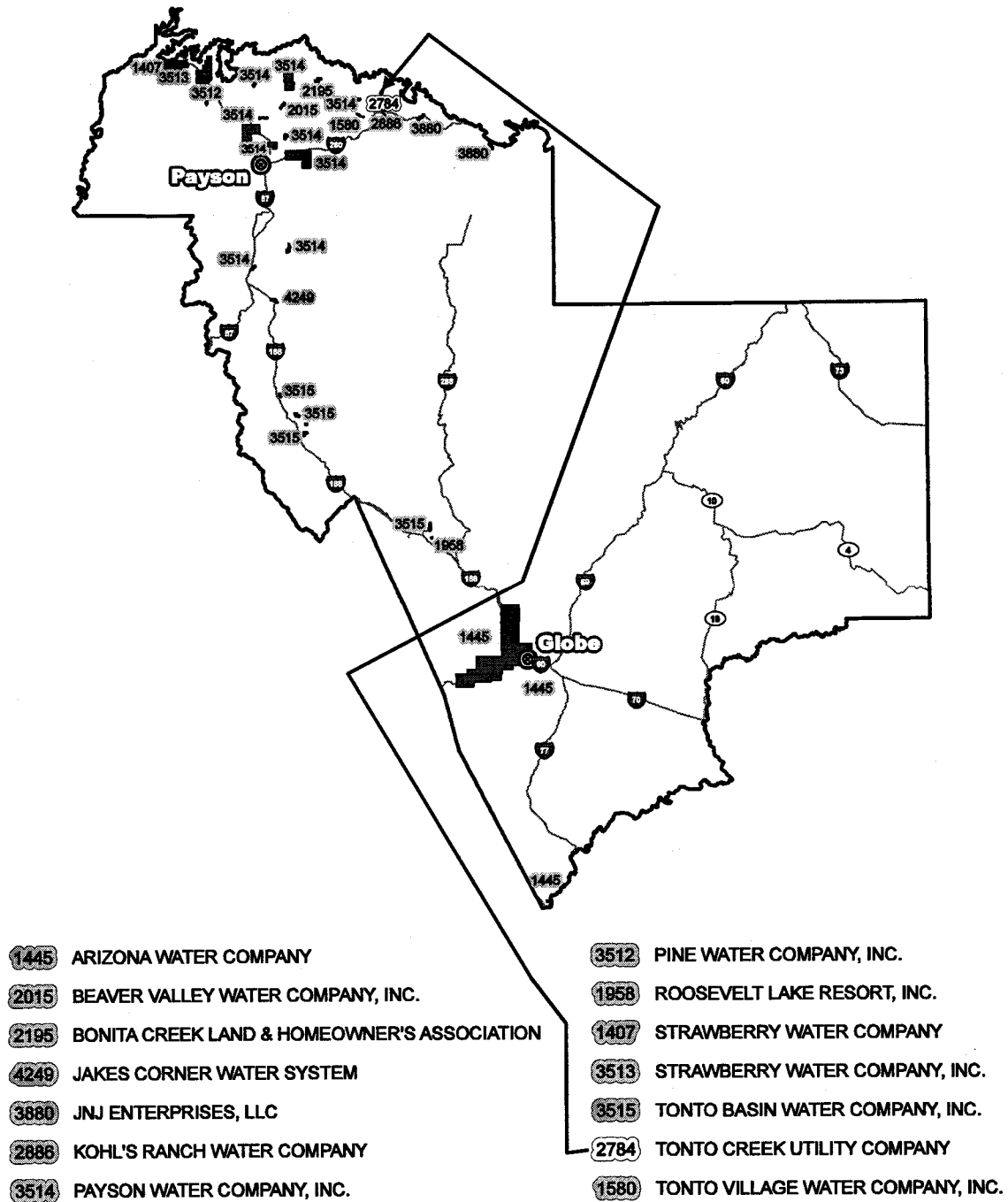


Figure 2



**B. DESCRIPTION OF THE WATER SYSTEM**

The Company's water system was visited on October 21, 2008, by Katrin Stukov, Staff Utilities Engineer, in the accompaniment of Pam Fisher, Secretary/Treasurer for the Company and Jerry Fisher, the water system's operator.

The water system consists of one well, two storage tanks, one booster pump, one pressure tank and a distribution system that serves 72 metered customers<sup>1</sup> located in the Tonto Creek Estates, Tonto Rim Ranch and Rancho Tonto subdivisions. A water system schematic is shown as Figure 3 and Table A includes a detailed plant facility listing.

Table A. Plant Facilities Summary<sup>2</sup>**Well Data**

ADWR ID No.	55-807245	Notes
Casing Size	12 inch	
Casing Depth	29 ft	
Pump Size	2 Hp	
Pump Yield	16 GPM	
Meter Size	1-1/2 inch	Replaced in October 2008
Year Drilled	1962	

**Storage, Pumping, Structures**

Structure or equipment	Quantity and Capacity
Storage Tank	2- 15,000 gallon
Pressure Tank	1 - 2,000 gallon
Booster Pump	1-5 HP
Pump house	12'x24'

**Distribution Mains**

Diameter (in inches)	Material	Length (in feet)
2	GALV	4,900
4	GALV	4,800
1-1/2	GALV	950
1-1/2	SCH 40	500
2	SCH 40	800

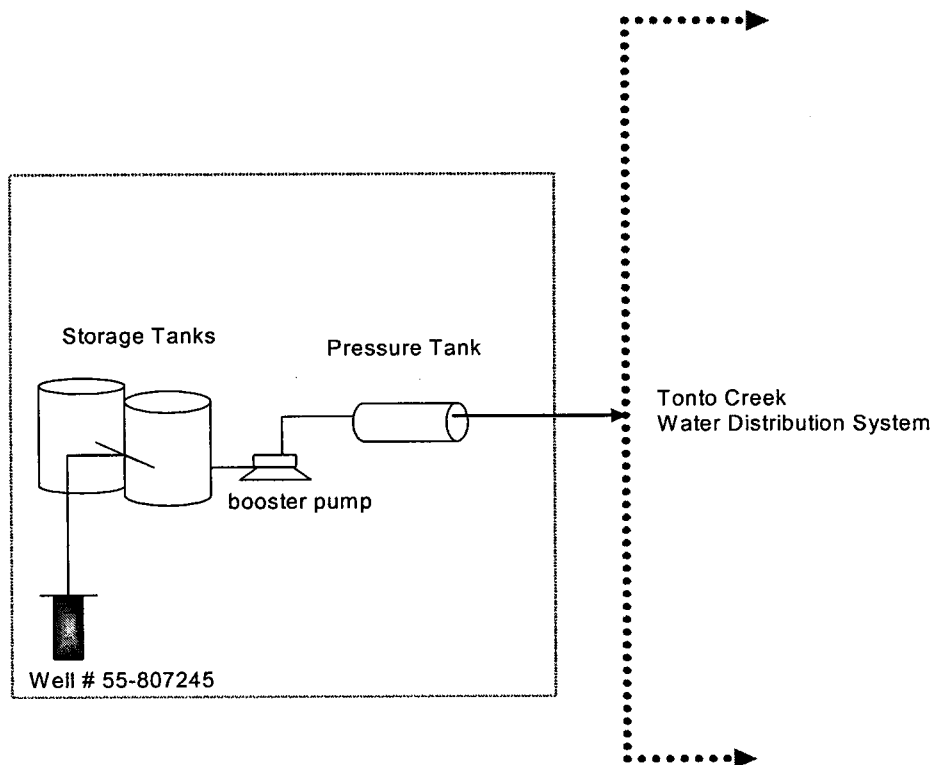
**Meters**

Size	Quantity
5/8 x 3/4 inch	72

<sup>1</sup> According to the Company, 55 out of 72 its customers are seasonal.

<sup>2</sup> Based on the Company's application and Staff's site visit

Figure 3 System Schematic

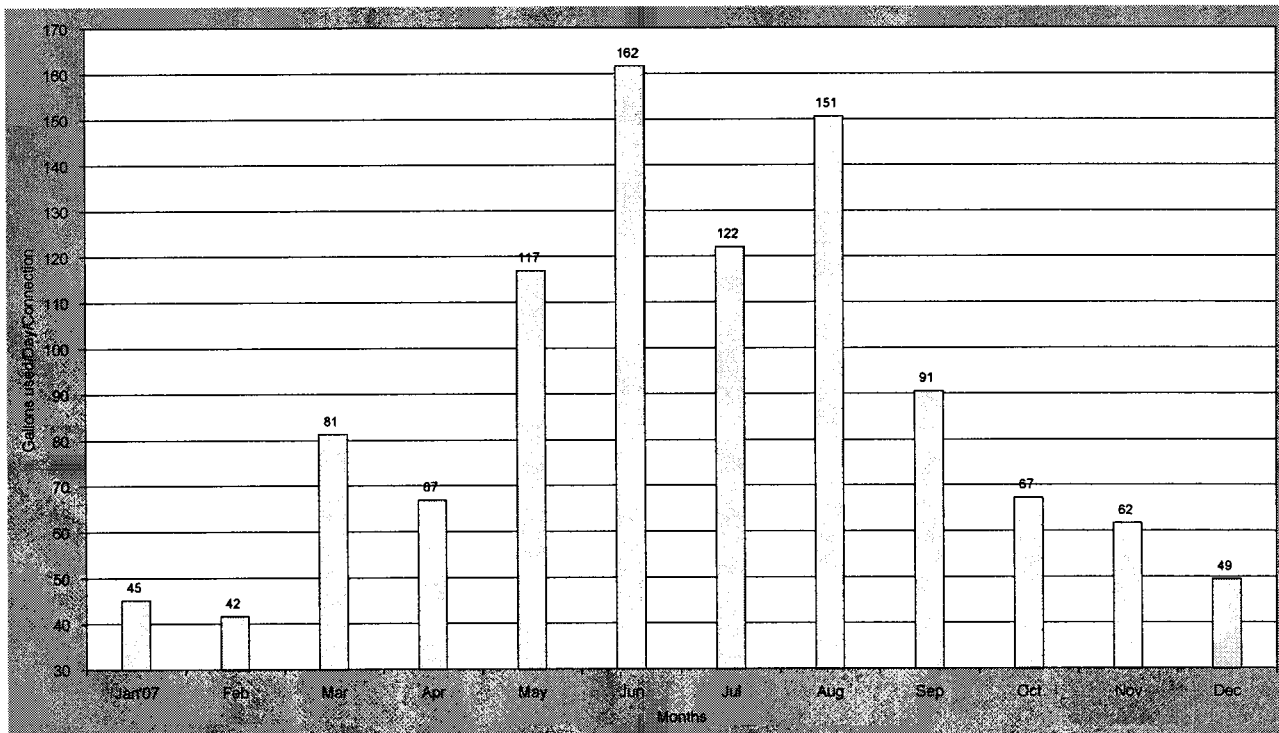


## C. WATER USE

### Water Sold

Figure 4 represents the water consumption data for the test year ending December 31, 2007, provided by the Company in its water use data sheet. Customer consumption included a high monthly water use of 162 gallons per day (“GPD”) per connection in June, and the low water use was 42 GPD per connection in February. The average annual use was 88 GPD per connection.

Figure 4 Water Use



### Non-account Water

Non-account water should be 10 percent or less. It is important to be able to reconcile the difference between water sold and the water produced by the source. A water balance will allow a company to identify water and revenue losses due to leakage, theft and flushing.

The Company reported 2,400,070 gallons pumped and 2,317,041 gallons sold for the test year, resulting in a water loss of 3.5 percent. This percentage is within acceptable limit of 10 percent.

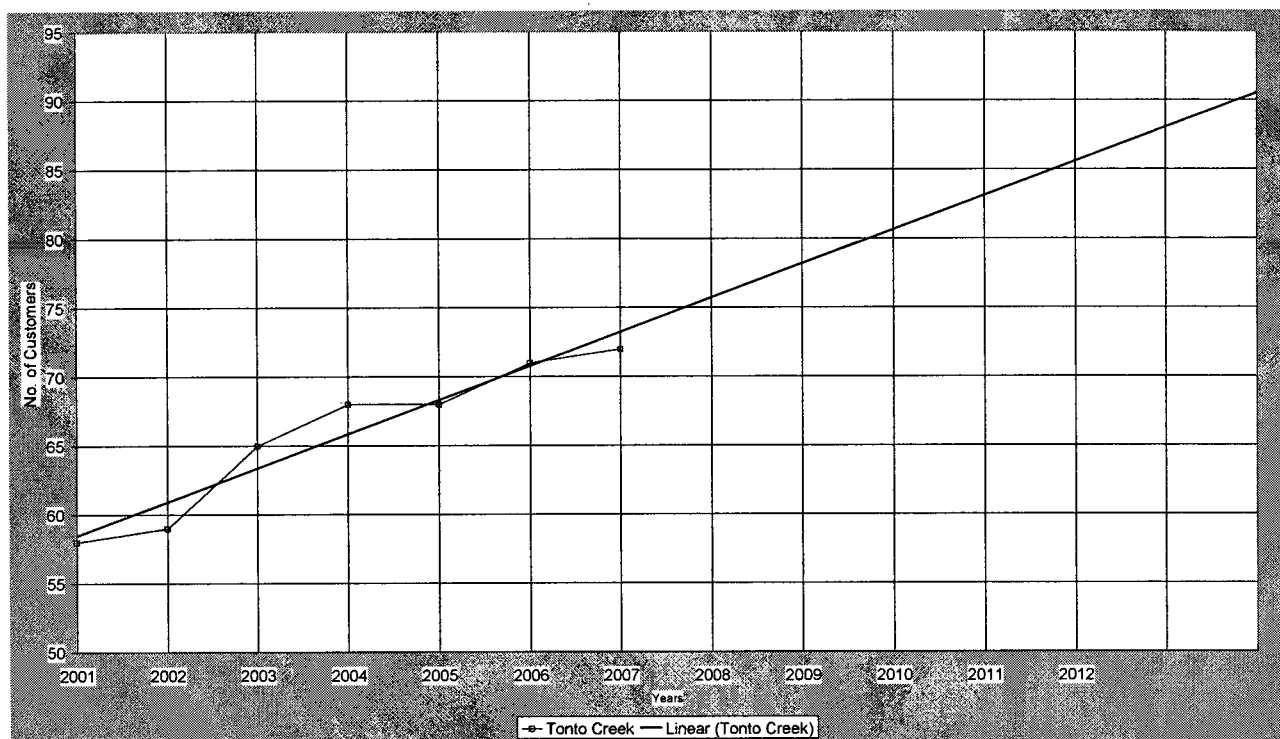
### System Analysis

Based on the data provided by the Company, the system's well production capacity is 16 GPM and storage capacity is 30,000 gallons. The system had 72 connections as of December 2007. Staff concludes that the system's well and storage capacities are adequate to serve the present customer base and reasonable growth.

### **D. GROWTH**

Based on customer data obtained from the Company's Annual Reports, it is projected that the Company could have over 85 customers by 2012. Figure 5 depicts actual growth from 2003 to 2007 and projects an estimated growth for the next five years using linear regression analysis.

Figure5. Growth Projection



**E. ADEQ COMPLIANCE**Compliance

According to an ADEQ Compliance Status Report, dated October 31, 2008, ADEQ reported no deficiencies and has determined that the Tonto Creek system (ADEQ Public Water System Identification No. 04-021) is currently delivering water that meets the water quality standards required by Arizona Administrative Code, Title 18, Chapter 4.

Water Testing Expense

Participation in the ADEQ Monitoring Assistance Program ("MAP") is mandatory for water systems which serve less than 10,000 persons (approximately 3,300 service connections).

The Company reported its water testing expense at \$649 for the 2007 test year. Staff has reviewed the Company's water testing expense and has recalculated the testing costs based on the Company's new laboratory costs. Table B shows Staff's adjusted annual monitoring expense estimate of \$795 with participation in the MAP (ADEQ - MAP invoice for the 2008 Calendar Year was \$435).

Table B. Water Testing Cost

Monitoring	Cost per test	No. of test	Annual Cost
Total coliform – monthly	\$20	12	\$210
MAP – IOCs, Radiochemical, Nitrate, Nitrite, Asbestos, SOCs, & VOCs	MAP	MAP	\$435
Lead & Copper – annually	\$30	5	\$150
Total			\$795

**F. ADWR COMPLIANCE**

The Company is not within an Active Management Area. According to an ADWR Compliance Status Report, dated August 12, 2008, the Company is in compliance with the reporting requirements of *Arizona Revised Statutes* § 45-341-343 and Company's filed System Water Plan, which includes a Water Supply Plan, Drought Preparedness Plan and Water Conservation Plan met ADWR requirements.

**G. ACC COMPLIANCE**

A check with Utilities Division Compliance Section showed that there are currently no delinquent compliance items for Tonto Creek<sup>3</sup>.

**H. DEPRECIATION RATES**

It appears the Company has been using a depreciation rate of 5% in every National Association of Regulatory Utility Commissioners ("NARUC") plant category. In recent orders the Commission has been shifting away from the use of composite rates in favor of individual depreciation rates by NARUC category. (For example, a uniform 5% composite rate would not really be appropriate for either vehicles or transmission mains and instead, different specific retirement rates should be used.)

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life per National Association of Regulatory Utility Commissioners ("NARUC") plant category. These rates are presented in Table C and it is recommended that the Company use these depreciation rates by individual NARUC category on a going -forward basis.

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<sup>3</sup> Per ACC Compliance status check dated August 21, 2008.

**TABLE C**  
**DEPRECIATION RATE TABLE FOR WATER COMPANIES**

NARUC Account No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

## NOTES:

1. These depreciation rates represent average expected rates. Water companies may experience different rates due to variations in construction, environment, or the physical and chemical characteristics of the water.
2. Acct. 348, Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.

**I. OTHER ISSUES****1. Service Line and Meter Installation Charges**

The Company has requested changes in its service line and meter installation charges. These charges are refundable advances and the Company requested charges are lower than Staff's customary range of charges. Staff recommends its updated version and lower end of its customary range of charges. Staff believes its recommended charges listed below are more reflective of current costs than the Company's proposed charges. Since the Company may at times install meters on existing service lines, it would be appropriate for some customers to only be charged for the meter installation. Therefore, separate service line and meter charges have been developed by Staff. Staff recommends that the charges labeled "Staff's Recommendation" in Table D be adopted.

Table D Service Line and Meter Installation Charges

Meter Size	Company Current Tariff	Company Proposed Tariff	Staff's Recommendation		
			Service Line Charge	Meter Charge	Total Charge
5/8 x 3/4-inch	\$250	\$400	\$415	\$105	\$520
3/4-inch	\$275	\$425	\$415	\$205	\$620
1-inch	\$420	\$570	\$465	\$265	\$730
1-1/2-inch	\$635	\$785	\$520	\$475	\$995
2-inch	\$1,090	\$1,240	\$800	\$995	\$1,795
3-inch	\$1,505	\$1,655	\$1,015	\$1,620	\$2,635
4-inch	\$2,380	\$2,530	\$1,430	\$2,570	\$4,000
6-inch	\$4,655	\$4,805	\$2,150	\$4,925	\$7,075

**2. Curtailment Plan Tariff**

The Company does not have an approved curtailment tariff.

**3. Backflow Prevention Tariff**

The Company has an approved backflow prevention tariff.